

# *The* **MAGAZINE** *of* **WALL STREET**



## **Twenty Stocks That Promise Larger Dividends**

**Should You Average Your  
Mark Losses?**

**A Reprieve For Business**

**By Hon. Simeon D. Fess**

**Which Are The Best Copper Stocks?**



# School for Traders and Investors

## First Lesson

### Turning the Manipulator's Rule Inside Out

IN inaugurating this new School for Traders and Investors, THE MAGAZINE OF WALL STREET, as school-master, does not propose to begin with a collection of platitudes on how to make money in stocks and bonds, because we have observed that few have ever made money by following threadbare rules, handed down from one Wall Street generation to another. Rather do we present some practical illustrations as to how the thing is done, together with a careful selection from available material of those distinctive points that are especially adaptable to the character of one's individual requirements.

To become a successful trader one must evolve his own method and follow it closely. The first step, therefore, is to survey the field and locate those points which may be absorbed as integral parts of the method one proposes to build.

We frequently hear the expression: "The Wall Street Game." Consider it more of an art, or a science; but those who wish to regard it as a game should remember that one seldom plays a game by himself. He has one or more opponents. In the stock market his opponents are, as a rule, far more skilled than he is; but assuming that he has only one, of such ability as to match, but not to exceed his own, he must begin as in checkers, chess, bridge, or any other—he must study the game the other fellow is playing.

Now, assume that your opponent be the person in absolute control of the market; or if that is too much a stretch of the imagination, assume that he is the one who is market-handling the particular stock in which you wish to trade. If it were possible for you to know what he intends to do with the stock, you assume that you could make money. You would know when to buy, when to sell and when to buy back, and so on. But the fact is your opponent does not know just when he is going to do these things himself. His handling of the stock depends upon many conditions, the majority of which he does not know. He may hold the opinion that the trend of the market is upward and as he has a favorable position, he may roughly outline his plans in accordance with what he is endeavoring to do; but he cannot tell from one hour to the next when he will be obliged to change these plans. Nevertheless, certain indications can scarcely be concealed and these give the experienced trader an opportunity to judge what is in the mind of the man behind the scenes.

Rarely is it that this mysterious personality, or those who are generally re-

ferred to as "they" (representing the interests who dominate the market), or the particular group or operator who looks after the market affairs of a certain stock or stocks—rarely it is that any one of this class openly confesses how he does it. But in looking over the *Saturday Evening Post* for February 24th, 1923, we find Edwin LeFevre again interviewing one Lawrence Livingston, so called, whom everyone familiar with Wall Street affairs recognizes as a well-known operator. Whatever LeFevre's purpose in thinly veiling the name of his hero, we cannot say; hence, we will not reveal his identity to those who fail to recognize it. We will say, however, that not long ago we told Mr. So-Called Livingston that this was the best thing he had ever done, for he had thereby shown the public the strong and weak points of the business of operating in stocks, besides clearing up a lot of misconceptions about himself, Wall Street in general, and the stock market in particular.

Every student in our School should, therefore, provide himself with a nickel's worth of *Saturday Evening Post* of the aforesaid date, in order that he may for once see how the other fellow plays the game, and as soon as the scholars have this essay of Livingston's spread before them, we will proceed to examine it.

Let us begin by disposing of the discussion of manipulation; manipulators; who they were; what manipulation means; because we are not so concerned with definitions as we are with results that may be attained by a study of the subject.

Livingston says that the object of manipulation is usually to develop marketability in a stock, so that the operator may dispose of substantial quantities of it when he so desires; that is, he aims to create a broad market on which he can sell; but for our purpose, so long as we are in the primary grade of our teaching, we will regard manipulation from the following aspects: (1) It is undertaken for the purpose of inducing the public to buy when the operator wishes to sell, and sell when the operator desires to accumulate stocks. (2) It is employed in the marking-up or marking-down stage of a stock-market movement. (3) It is frequently used to prevent activity in a stock; to discourage trading in order to prepare the way for certain future developments.

Each stock-market movement has three well-defined stages which have frequently been referred to in our columns; in the case of an operation on the long side, (1) accumulation, (2) marking up, (3) dis-

tribution. An operation on the short side would begin with (1) distribution or short selling, (2) marking down, (3) covering.

It is quite important that the trader form his own estimate as to which of these stages a stock is going through at the time he undertakes to deal in it; in other words, he must form the proper diagnosis and accurately sense the trend of the stock if he is to work in harmony with the manipulator and his evident purpose.

Livingston admits that as the object of manipulation is to sell stock to the public at the best possible price, and to create a broad market for it, it is far more advantageous to have the stock distributed among many holders than a few. If large blocks were sold to a few people, something might happen to cause all of these holders to sell their stock at the same time, and this might lead to a serious break in the market price. But if many small holders buy the same quantity of stock, they are likely to be scattered all over the country and, therefore, not subject to the same influences; their realizing is likely to come along in small lots and at times when there is a fair market on which they can sell. As small holders, they do not unnecessarily depress the price in disposing of their shares.

Next we come to a quoted rule of James R. Keene's that "the way to sell stocks to the public is to manipulate them to the highest point possible and sell them on the way down." This was not alone Mr. Keene's rule; it is a well-known principle in manipulation—one which has been and probably will be employed by pools and operators who make Wall Street their stamping ground, until the public is so thoroughly trained in the idea that a change in tactics is found neces-

A recent case of this kind occurred in Standard Oil of New Jersey before the 400% stock dividend was declared. Preparation for this move began to appear in 1922 while the stock for a long period was ranging between 170 and 180. A false move to 198 was followed by a decline to the 185-180 range, and when the real rise began it was almost a straight drive up with a few reactions of three to five points until the price crossed 225. Then came the "hurrah" in the form of a 25-point rise without even a three-point reaction.

As soon as the stock touched 250, the selling began and the procession of prices started downward in almost exactly the same way as it had gone forward. All bids were filled and the stock gradually declined again to 184. Soon after this the old stock was exchanged for the new,



which is now selling at 44, the equivalent of 220 for the old. Assuming that the purpose of this move was to drive the stock to 250 and sell it back, the average price received for liquidated stock must have been somewhere between 215 and 225, or, say, 220. If the previously accumulated stock averaged 180, there was a forty-point profit in it for the pool which engineered the move. From a manipulative standpoint it was an artistic piece of work, executed by a master hand.

It seems astonishing that the commercial rule which makes an article or a commodity less desirable the higher its price goes, is completely reversed in Wall Street. The higher a stock goes, the more cupidity is aroused among its holders and prospective buyers. Those who have twenty points profit believe they will get fifty; and those who have fifty points, believe they will realize one hundred. Instead of gradually letting go of their holdings, or actually disposing of all of them at a price that shows a substantial profit, the average trader is apt to buy more and more and find himself with his largest load at the top of the move. This sort of buying is usually attracted when the drive up toward the high point is almost uninterrupted and the stock is not allowed to lag or get stale at certain levels, or react very much until the objective point has been reached. This kind of sustained movement is convincing and brings in buyers in proportion to the urgency and determination displayed by the stock, which, of course, is only reflecting the minds of those responsible for its action.

The reverse of present public custom indicates the proper method for the trader. Those who hold what they have, buy more as a stock rises, and eventually find themselves in a precarious market position, should take a leaf out of the book of E. H. Harriman who, besides being a railroad magnate of the first water, was one of the largest stock operators of his day and probably the most successful. After the Northern Securities combination was dissolved, the Union Pacific found itself long of many thousands of shares of Northern Pacific & Great Northern. During the great railroad stock boom of 1905-6 the former rose to 252½ and the latter to 348. Harriman sold all of these holdings on a scale up, realizing an average of 208¾ for the Northern Pacific and 304½ for the Great Northern, and thereby cleaned up a net profit of \$58,000,000 for the Union Pacific treasury — probably the largest profit ever made

out of any railroad company's single investment.

If everybody who trades in the stock market would follow the Harriman example and sell on a scale up or on the way up, and get through selling while the market is high and their stocks are strong, it would be impossible for any manipulator to say, "We drive them as high as we can and sell them on the way down."

Reverse any manipulator's well tried and proven rule, and you thereby formulate a sound principle for the outside trader, for the manipulator does the opposite of what his public undertakes to do and if the public were to reverse its rules the manipulator would immediately be obliged to conform thereto and work out new rules for himself.

### A Common Error

But there is another point of public weakness besides the cupidity which prompts a speculator to hold and buy more. It is the tendency to buy on declines, regardless of whether the decline shows signs of running its course or whether there are indications of a real turning point in the market for that stock. The habit of buying a stock at 90 because it looks cheap in comparison with its recent high price of 100 is one that leads many a trader into a ten, twenty or thirty-point loss. The stock in question may originally have been worth but 75, and the pool operating in it may be desirous of unloading a block of stock at that price or better. Hence, the drive up to par might represent merely the preliminary stage. The selling may begin at the \$100 mark. By the time the price has declined to 90, there has undoubtedly been a lot of stock sold, but bear in mind that the pool does not expect to realize par or 90 for any substantial quantity; it hopes to realize 75 on the average. Hence, by starting at 100 it can sell all the way down to 50 in equal amounts and still realize its 75 average. The danger to those operating on the fallacy that a stock is cheap because it is ten or twenty

points off from the top, is readily apparent. It was apparent in the case of Standard Oil of N. J. Those who saw it at 250 might have been convinced that it was cheap at 225; but that did not prevent its declining to 185 thereafter, at which price the 225 buyer was in trouble.

Our friend Livingston says: "The principal marketing of the stock is done on the way down. It is perfectly astonishing how much stock a man can get rid of on a decline." To put it another way, it is perfectly astonishing the amount of buying done by the public on a decline in a stock after it has sold at a comparatively high figure. Livingston did not say, it is astonishing how many people will buy a stock on the way up; he does not as a rule try to distribute that way. He drives it up and sells it down, and finding most buyers ready to take it on what they call a reaction, he is able to complete his liquidation by selling it to such buyers.

The above should show all students who are endeavoring to master some of the principles in this field, that if they have made this mistake in the past, they should avoid doing so in the future. The time to buy is not when the very utmost has been recorded in the way of a market price; not when the newspapers have clamored the loudest about the bullish aspects of the stock or the industry represented; not when there are the greatest number of items on the news-slips about the company, and, most of all, not because the stock is down somewhere below its high, or is declining and looks cheap. No, that is not the time to buy.

### The Right Time to Buy

A very much better period for purchasing is when nobody is saying anything about the stock; when it looks weak but refuses to go down in spite of heavy sales; when the newspapers ignore it; when people are talking bearishly on it although the price seems to be sustained. By purchasing then you accumulate your holdings when the pools and manipulators

and Livingstons take on theirs. Of course, your judgment may be in error, just as theirs frequently is wrong. But, at least, you will have the satisfaction of reversing the well-tried public rule of buying on the way up, at the top and on the way down, and you will, therefore, stand a better chance of realizing a profit in the majority of your transactions.

(THE SECOND LESSON WILL APPEAR IN THE NEXT ISSUE.)

